

## Honorable Mayor and City Council of the City of San Diego, California

The purpose of this report is to provide the Mayor and City Council with the status of the Fiscal Year 2003 Budget. The report provides year-end projections based on the availability of six months of actual revenue and expenditure data. It also provides the actions that have been taken to address shortfalls in the General Fund and actions that require City Council approval to end the year in balance. The report will also present some of the issues that are being addressed in development of the Fiscal Year 2004 Budget. More detail on the Fiscal Year 2004 Proposed Budget will be presented to the Mayor and City Council in March.

### FISCAL YEAR 2003 STATUS

The City Council adopted a balanced budget for Fiscal Year 2003 totaling \$2.1 billion including \$729.3 million for General Fund expenditures, \$680.3 million for Enterprise Fund operations, \$288.4 million for Special Revenue Fund operations, \$11.0 million for Debt Service and Tax Funds, and \$411.4 million for Capital Improvements Program expenditures, with an adjustment for interfund transactions of \$169.3 million.

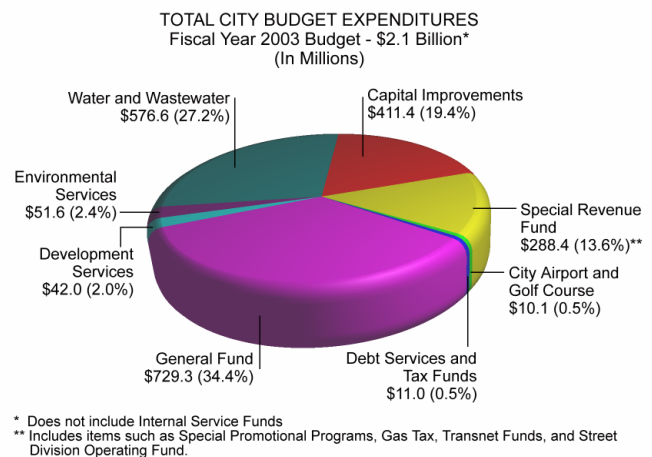
For Fiscal Year 2003, the most significant issues affecting the General Fund budget are the potential loss of funds due to the State deficit and shortfalls in revenues, due to the slower economy.

The Fiscal Year 2003 revenue activity to date reflects a slow economic recovery, and economic growth will continue to affect the growth rates for major revenues throughout the remainder of the fiscal year. Since the economy is not recovering as quickly as expected, major General Fund revenues and associated revenues are projected to fall short of budget estimates in the range of \$20 million. In addition, due to dramatic increases in health care costs, the General Fund's Workers' Compensation expenditures are projected to be approximately \$6-8 million over the budgeted amount. Combined, the projected revenue shortfall and Workers' Compensation costs result in a deficit for the General Fund in the range of \$25-30 million. The projected deficit is significant and the City Manager's Office, the City Auditor and Comptroller and the departments have been working diligently to solve this deficit in order to end the year in balance, as required in the City Charter.

The steps taken to date to help balance the City's budget are outlined in this report.

#### Economy and State of California

The economic forecast for the next few months is uncertain, though economists project higher growth in calendar year 2003 compared to 2001 and 2002. The biggest challenge for economic growth is a potential war, although wars usually do not cause recessions but contribute to the factors that lead to recession. Another challenge for the economy is consumer spending. Consumers feel skeptical about unemployment and the job outlook



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and consumer confidence has been dropping to its lowest point since the mid-1990s. Some economists are also worried about deflation, which could have a significant effect on the economy. The only positive factor in the economic outlook is the housing market. Interest rates are expected to remain low during the next several months, and home prices will continue to rise, though at a slower rate than in 2002. Looking at these national trends, it is worth mentioning that San Diego's economy has been performing better than the rest of the State and the nation. As local economists project, there will be a higher job growth in the region in 2003, although unemployment may slightly increase over 2002 levels. Overall, San Diego's diversified economic base has helped the region to stay at comparatively steady economic levels through the recession.

The State of California is projected to face a budget deficit of \$26 to \$35 billion through Fiscal Year 2003-04. In his proposal, Governor Gray Davis proposed budget savings involving major program reductions and tax increases. Governor Davis' proposal includes discontinuing the State backfill of motor vehicle license fees for an impact of approximately \$20 million in the City's Fiscal Year 2003 General Fund budget and \$50 million in the Fiscal Year 2004 budget. Other impacts would include a reduction for libraries of over \$1 million for Fiscal Years 2003 and 2004 and elimination of future Fiscal Year 2003 apportionments to the City of funding from the Traffic Congestion Relief Fund (AB2928), which could result in reduction or elimination of projects such as sidewalk repairs, tree trimming and resurfacing. In Fiscal Year 2004, further reductions could include the elimination of \$5.2 million in booking fees reimbursements. In addition, a property tax increment shift to the Educational Revenue Augmentation Fund (ERAF) could result in a \$14.4 million loss for City redevelopment agencies.

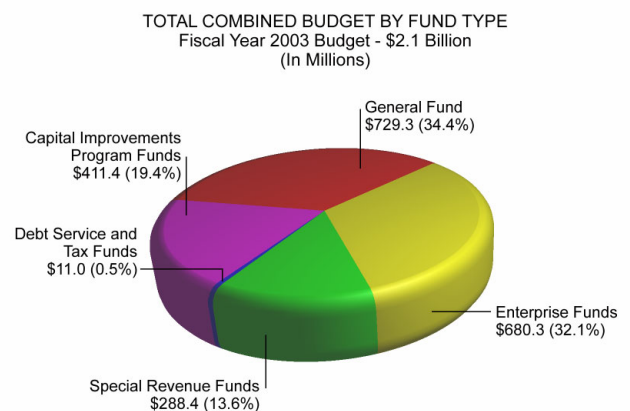
The State Legislature has reviewed the Governor's proposal and formulated a bill which would make it possible to raise the cost of Vehicle License Fees to consumers, which would help retain this revenue for the City. The Governor has threatened a veto on this bill and the status of current year funds from the State is still uncertain. However, the City has continued to receive revenues from the State; therefore, no reductions have been made to date based on State action for Fiscal Year 2003. However, there is no guarantee that the State won't impact other sources of revenue to the City. Potential State action will primarily impact the General Fund, as opposed to the other funds that compose the City's total budget.

### Total Combined City Budget

The City's Total Combined Budget is funded primarily through four types of funds:

- General Fund
- Enterprise Funds
- Special Revenue Funds
- Capital Improvements Program Funds

These fund types, in addition to Debt Service and Tax funds, are shown in the accompanying charts. General Fund monies are used to pay for core City services such as public safety, parks and recreation, refuse collection, street maintenance, and libraries. Enterprise Funds



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account for specific services that are funded directly through user fees. These specifically include Water, Wastewater, Development Services, Refuse Disposal and Recycling, Golf Course and the City Airport. Special Revenue Funds account for revenues that are received for specifically identified purposes. These funds include Gas Tax, Environmental Growth, Public Art, TransNet, and Special Promotional Programs. Debt Service Funds are used for the payment of principal and interest on an obligation resulting from the issuance of bonds. Capital Improvements Program Funds support construction projects such as the acquisition and development of park land, the construction of a sewer pump plant, the installation of a traffic signal, or the construction or remodeling of a City facility. Interfund transactions involve the transfer of funds between departments/funds for specific purposes as approved by the appropriate authority.

## Fiscal Year 2003 General Fund Revenue Status

The following is a description and status of the primary General Fund revenue sources, which are Property Tax, Sales Tax, Transient Occupancy Tax (TOT), Motor Vehicle License Fees (MVLFF), and Franchise Fees. Actual data for Fiscal Years 1999-2002 and year-end projections for Fiscal Year 2003 are reflected in the bar charts contained below.

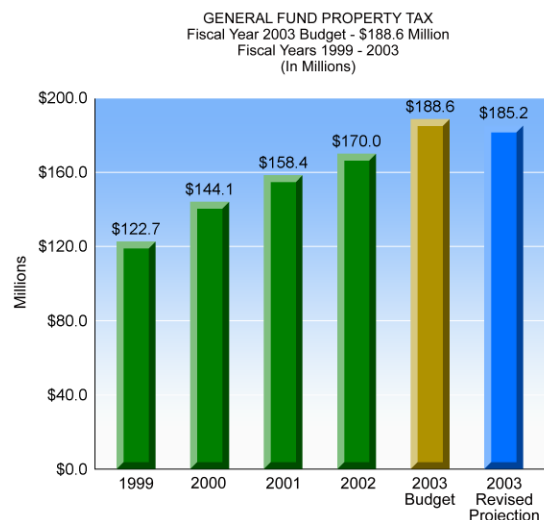
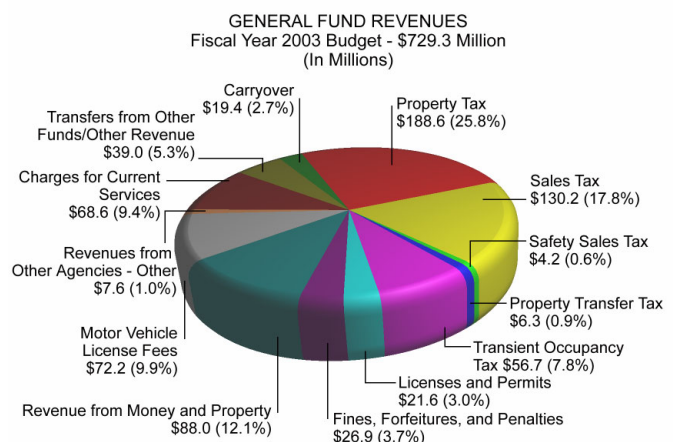
### Property Tax

Property Tax revenue collected by the County Tax Collector is the result of a one percent levy on the fair market value of all real property. Passed by voters in 1979, Proposition 13 specifies that an assessed value may increase at the rate of the Consumer Price Index, not to exceed two percent per year based on the 1979 value of the property, unless the property is improved or sold to establish a new market value.

The one percent Property Tax levy collected by the County Tax Collector is distributed to a number of agencies within the City's geographic area, including the County, school districts, and special districts. For every \$100 collected, the allocation to the City totals \$17.10.

Property Tax revenue is also collected for purposes other than supporting the General Fund. An additional levy over the one percent rate is collected to pay debt service on voter-approved debt. In June 1990, voters approved a \$25.5 million debt issuance to finance a new public safety communication system for the City; the levy is \$2.11 per \$100,000 assessed valuation for Fiscal Year 2003, and is adjusted annually. In addition, a special tax levy of \$5.00 per \$100,000 assessed valuation is used to fund zoological exhibits.

Over the last decade, many factors have contributed to reductions in the amount of revenue the City has received from Property Tax. In Fiscal



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Year 1993, the State took action to reduce its obligation for school funding by shifting local Property Tax revenue to school districts. This reallocation of funds caused a permanent shift in City Property Tax that has translated into a cumulative loss of over \$311.2 million through Fiscal Year 2003. In addition to this shift in funding, the State authorized counties to charge cities administrative fees for collecting and distributing Property Tax. For the City of San Diego, that action has further reduced annual Property Tax revenue by approximately \$2.1 million per fiscal year.

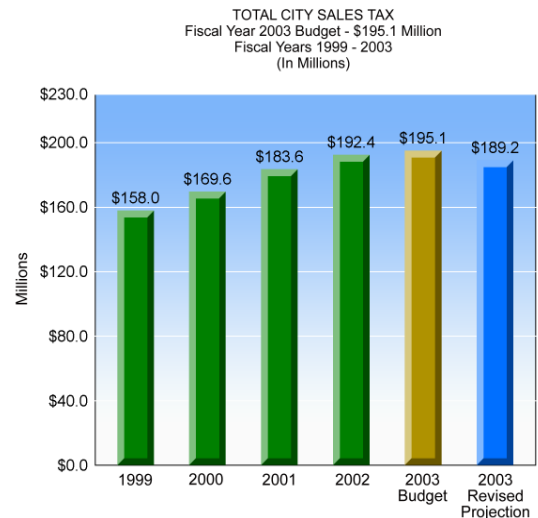
Fiscal Year 2003 Property Tax revenue is budgeted at \$188.6 million. This figure assumed nine percent growth over last year's estimated base receipts. Current year activity to date and projected revenue for the balance of the year is expected to result in actual Property Tax revenue of \$185.2 million. The projected deficit of \$3.4 million is a result of a lower than anticipated growth rate over Fiscal Year 2002 receipts. However, overall, real estate in San Diego has continued to appreciate due to the tight housing supply in the region and historically low mortgage interest rates. DQNews.com, a local provider of real estate data, reported that property values grew 25 percent in December 2002 as compared to December 2001.

### Sales Tax

Sales Tax is the largest source of non-Property Tax revenue for the City's General Fund. The City receives one cent (or 13 percent) of the total Sales Tax levied on each dollar of taxable sales within the City of San Diego. The current sales tax rate is 7.75 percent, which is collected at the point of sale and forwarded to the State under the administration of the State Board of Equalization. The tax revenue owed to the City is returned in the form of monthly payments.

The Fiscal Year 2003 Total City Sales Tax budget, which assumes a four percent growth over Fiscal Year 2002's estimated base revenue, is \$195.1 million. Based on the latest receipts, the Fiscal Year 2003 projection is \$189.2 million, which is below the budget by \$5.9 million. Of the total budget, \$130.2 million is allocated to the City's General Fund. The impact to the General Fund is a projected deficit of \$5.6 million. The City also utilizes Sales Tax revenue within funds such as the Police Decentralization Fund, Transient Occupancy Tax and other funds for a total budget of \$64.9 million and a projected deficit of \$0.3 million.

Sales Tax receipts experienced slow growth in 2002. This is partially due to a decline in consumer spending during 2002 which was a result of consumers' concerns about the job market and uncertain economic recovery. Consumer confidence was not steady during 2002. For instance, according to the U.S. Conference Board, consumer confidence had positive growth in November, but dropped again in December 2002. Another reason for slowing growth of sales tax receipts, as the California State Legislative Analyst's Office points out, is that sales and use tax receipts are generally associated with retail spending, whereas approximately one-third of taxable sales are actually attributable to business-to-business transactions, which include purchases of computers, telecommunications equipment, and building materials. The decline in business spending played a significant role in the decline of taxable sales in California in 2002. According to the UCLA Anderson



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Forecast, the San Diego region's diversified economy helped the region to mitigate deep declines, such as in the retail industry, whereas the rest of the State experienced a profound impact. Overall, according to the Legislative Analyst's Office, taxable sales will not only experience moderate consumer spending increases, but will also experience declines in business related sales until the second half of 2003, when the business sector is expected to rebound.

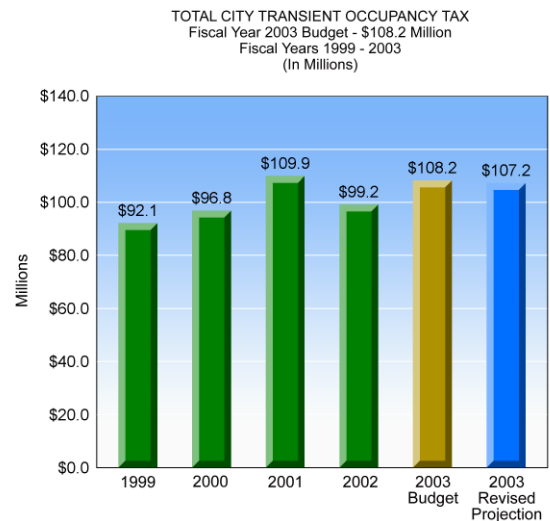
### Transient Occupancy Tax (TOT)

Transient Occupancy Tax (TOT) is a tax levied on the hotel/motel room rent of visitors staying in San Diego for less than one month. A one and one-half cent rate increase became effective in August 1994, which increased the TOT rate to ten and one-half percent, the lowest rate of the top 10 cities in the U.S. The equivalent of five and one-half of the ten and one-half cents per dollar of TOT collected is allocated directly to the General Fund for general government purposes. An amount equivalent to five cents per dollar of TOT is allocated for various promotional and other purposes as designated by City Council policy and through the Special Promotional Programs budget.

Fiscal Year 2003 total TOT revenue is budgeted at \$108.2 million, with \$56.7 million allocated to the City's General Fund. This projection assumed six percent growth over last year's estimated base revenue plus additional revenue attributed to new hotels and Super Bowl XXXVII. Current year activity to date and projected growth for the balance of the year is estimated to result in actual TOT receipts of \$107.2 million, resulting in a deficit of \$1 million, which will impact the General Fund. According to hotel industry experts, the decline in TOT revenue during 2002 was due primarily to reduced business travel as compared to previous years. Leisure and international travel also experienced some slowing in 2002. The weak travel market was impacted, in its turn, by the economic recession and the fear of terrorist attacks. Nonetheless, it is the leisure travel sector that has been leading the hotel market to recovery.

According to the San Diego Convention and Visitors Bureau (ConVis), San Diego remained one of the strongest lodging markets in both hotel performance and desirable destinations when compared to the leading cities in the United States. Through the first 10 months of 2002, San Diego, New York City and Oahu were the only U.S. destinations that averaged over 70 percent occupancy.

In 2003, San Diego's hotel market recovery will depend primarily on the return of business travelers, according to the San Diego State University (SDSU) Center for Hospitality Research. The San Diego Convention Center has more than 710,000 bookings for 2003, an increase of more than 200,000 nights when compared to annual room nights prior to the expansion of the center. This increase should offset sluggish business travel in 2003. ConVis forecasts slow but continued growth in 2003 for the hotel industry in San Diego. According to ConVis, the total number of visitors to San Diego is projected to reach 15.5 million, an increase of 2.3 percent over 2002 levels. Hotel occupancy is projected to increase by about one percent, to 69.6 percent, whereas the average hotel rate is projected to increase by 1.5 percent, to \$111.34, according to the SDSU Center for Hospitality Research.





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The City enters into contractual agreements with recipients of TOT for a specified amount of TOT. Although the City is receiving lower than anticipated TOT revenue for Fiscal Year 2003, no reductions in contractual obligations with TOT recipients have been made. The City's General Fund has absorbed the entire impact of the reduced TOT revenues, as it did in Fiscal Year 2002.

### Motor Vehicle License Fees (MVLF)

Motor Vehicle License Fees (MVLF) are calculated as a percentage of an automobile's market value and are payable annually to the Department of Motor Vehicles at the time of registration. The fees collected are forwarded to the State Controller's Office for administration and are distributed on a per capita basis statewide. Of the total revenue received by the State, cities and counties are apportioned 81.25 percent and 18.75 percent, respectively. Notably, because state-wide revenue is distributed on a per capita basis, increases in local vehicle sales do not directly translate into local MVLF revenue increases.

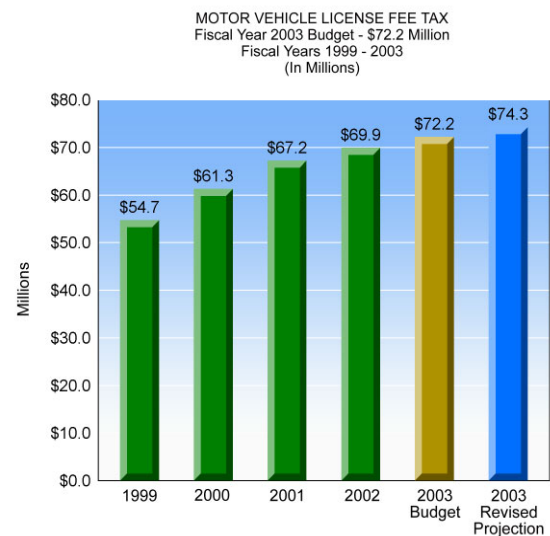
Auto sales have experienced a very good year in terms of sales of new automobiles. Various financial incentives have attracted consumers to buy vehicles, especially during the summer. The UCLA Anderson Forecast estimated that new car registrations in California for the first nine months of 2002 are only slightly behind last year's record pace. However, there is a concern among economists about zero-percent financing and other incentives: sales are being "stolen" from 2003 and 2004, which helps the economy now, but will result in lower sales in the upcoming years.

According to *economy.com*, a well-respected source of economical data, the demand for vehicles nationwide appeared to be declining in the fall of 2002 with a 5.0 percent decline in September, 1.9 percent in October, and 0.1 percent in November. However, December sales boosted overall volume of sales, which brought 2002 vehicle sales to the fourth record year in a row. Incentives will continue to determine sales strategies and performance in 2003.

MVLF revenue for Fiscal Year 2003 is budgeted at \$72.2 million, reflecting estimated growth of four percent over the prior year base receipts. The year-end projection for Fiscal Year 2003 is \$74.3 million. However, the Governor's proposal to immediately discontinue the backfill for the Vehicle License Fees could result in a \$20 million loss to the City of San Diego for Fiscal Year 2003. Although the State Legislature has formulated a bill that could reinstate the full Vehicle License Fee for taxpayers, the Governor has threatened a veto and the status of these funds is uncertain. At this time, the City continues to receive Motor Vehicle License Fee payments.

### Franchises

Revenue from franchise rents results from agreements that allow utility and cable companies to use the City rights-of-way. The largest of the City's five franchise revenue accounts results from an agreement with San Diego Gas & Electric Company (SDG&E). Under the terms of the agreement, the City of San Diego receives three percent of gross sales of natural gas and electricity within the City's jurisdiction.



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Seventy-five percent of SDG&E franchise revenue is deposited into the General Fund. The remaining 25 percent is deposited into the Environmental Growth Fund (EGF). One-third of the EGF is used to finance various environmental programs such as litter control and maintenance of open space. The remaining two-thirds of the EGF is used for debt service on open space acquisition bonds. SDG&E franchise fee revenue for the General Fund, budgeted at \$35.6 million, is projected to decrease by approximately \$9.1 million due to reductions in natural gas rates from 2001.

In addition, there is a 3.53 percent surcharge on the gross sales of electricity within the City with the revenues to be used for the sole purpose of undergrounding utility lines. This was approved by the California Public Utilities Commission in late December 2002. No revenue has been received to date.

The City of San Diego also receives franchise rent from cable television operations that use the City's rights-of-way for transmission cables. Effective July 1, 2002 the franchise fees from Cox Communication increased from three percent to five percent. The City receives three percent of franchise fees from Time Warner Cable. The Fiscal Year 2003 Budget assumed an increase to a five percent fee effective January 1, 2003, due to a proposal that was being contemplated at the time the Fiscal Year 2003 Proposed Budget was being developed. However, discussions with Time Warner resulted in a postponement of the negotiations for the fee increase until February 2003.

Effective July 1, 2002, the franchise fee for Solid Waste Collectors was increased by \$1.00 per ton, which will generate approximately \$600,000 in Fiscal Year 2003 and \$800,000 in subsequent years. The Solid Waste Collector franchise fee budget assumes these increases and revenues are projected to remain at budgeted levels.

The City's total Fiscal Year 2003 franchise fees budget is \$66.1 million. The Fiscal Year 2003 year-end projected deficit is \$13.4 million. The General Fund franchise fees are budgeted at \$54.2 million. The year-end projection for General Fund franchise fee revenue is \$43.9 million, which is below the budget by approximately \$10.4 million, primarily attributable to the SDG&E franchise fees.

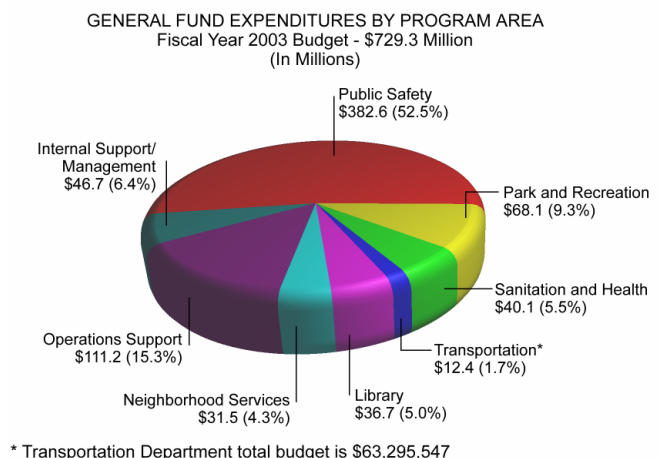
### Other General Fund Revenues

Other General Fund revenues make up the balance of funds available in the budget. For more detail on the status of these revenues, refer to Appendix A.

### Fiscal Year 2003 General Fund Expenditure Status

In preparing the Fiscal Year 2003 Budget last March, most General Fund departments reduced their budgets by two percent over Fiscal Year 2002 levels. This was equivalent to a \$10.2 million appropriation reduction in the General Fund.

During Fiscal Year 2003, we identified that, due to the slower than expected recovery of the economy, major General Fund revenues were not meeting budgeted expectations. In addition,



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Workers' Compensation costs are higher than budgeted due to increased health care costs. This creates a deficit in the General Fund in the range of \$25 - 30 million. To accommodate the shortfall in revenues and to ensure a balanced budget at year end, measures are being taken to reduce expenditures in the General Fund and to utilize other funding sources for the General Fund.

### **Expenditure Reductions**

Current reductions and savings plans include the following measures, totaling approximately \$12 million:

#### **Park and Recreation**

Suspension of non-essential expenditures and maintenance of existing vacancies will result in a reduction of regional park maintenance and non-safety related playground repairs; a decrease in enforcement of Municipal Codes in public parks; maintenance of environmentally sensitive areas; and late-day public restroom cleaning. The Department will also forego Round 2 of the Community Matching Funds Program. Additionally, the Department will eliminate grant match funds for Proposition 12 and 40 for this fiscal year, which may be delayed or canceled by the State of California. The watering of parks will also be reduced to generate savings.

#### **Neighborhood Code Compliance**

In order to meet its savings requirement, the Department will experience delays in case closures and graffiti removal, as well as a reduction of mediation services to the public.

#### **Library**

The Department will reduce deferred maintenance for several libraries including the Central Library Roof Reconstruction. The Department will also hold staff positions vacant for the rest of the fiscal year to achieve additional savings, as well as significantly reducing the purchases of Library materials.

#### **General Services - Facilities Division**

The Division will experience reduced levels of general facility repair and maintenance, as well as deferral of non-safety related vandalism repairs and facility inspections.

#### **Transportation - Traffic Engineering Division**

Savings measures in the Traffic Engineering Division will result in delays in responding to traffic requests and bicycle-related improvements. In addition, no new street light requests will be investigated and processed for the remainder of the current fiscal year.

#### **Fire - Rescue**

The San Diego Fire-Rescue Department will defer the filling of all vacant, non-constant positions for the remainder of the fiscal year. This should have a minimal impact on Fire and Rescue Services delivered to the public.

Fire-Rescue will suspend all non-essential travel and training, as well as equipment purchases. The Department will also transfer the initial identification of arson fires to the area commanders, and if identified as a potential arson fire, it will be referred to the Metro Arson Strike Team (MAST). This change in procedures allows the MAST to be reduced by two positions, minimizing reductions in service.



### **Police**

In order to minimize the Police Department's expenditures over their budget, the Department will reduce overtime, and will defer filling all vacancies, sworn and non-sworn. This will result in a longer response time for Priority 3 and 4 (non-emergency) requests, as well as reducing hours of operation for the Harbor Unit. Reduction of the Harbor Unit's operation will result in the reduction of law enforcement duties on Mission Bay waterways. Rescue and limited enforcement duties will transfer to Lifeguard Services. The Department will continue to utilize existing patrol staff to patrol the Mission Bay area on land, and will work with the Marina Alert groups to assist in monitoring and addressing crime problems on the waterways and land area.

The Police Academy scheduled for April has been cancelled. In addition, the Department has used a large amount of Non-General Fund revenue sources, including grants, to help bring the expenditures in line with appropriations. The Police Chief's Executive Committee will have one week of work furlough and the Chief will offer employees the opportunity to participate in the City's existing voluntary furlough program, with the exception of uniformed patrol personnel. The Department will also suspend any non-essential travel, non-mandatory training, and equipment purchases, and will reduce landscaping and maintenance contracts and evaluate the closing of some store fronts and satellite offices.

The approach we have taken for the reductions in Fire-Rescue and Police Departments has been strategic to minimize the impact on services provided to the public.

### **Administrative Transfers**

The City Manager, the City Auditor and Comptroller and departments have the responsibility to ensure that the City's budget is balanced at the end of each fiscal year. In addition to the authority to reduce expenditures in order to bring them in line with revenue projections, the City Manager and the City Auditor and Comptroller are also given the authority by the Appropriation Ordinance to transfer money among specific funds to maintain a balanced budget. Some of the administrative actions being pursued by the City Manager and Auditor and Comptroller to help balance the General Fund include transfers to the General Fund such as \$300,000 from the Community Services Center Fund, \$576,000 from the Vehicle Replacement Fund, \$1.4 million from the Storm Drain Fund, \$1 million from Transient Occupancy Tax-Balboa Park/Mission Bay Park Improvements, \$2 million from Capital Outlay/Police Decentralization, and \$500,000 from the Print Shop Fund. While we would prefer not using these funds in this manner, the alternative reductions would be less desirable.

### **Council Action Items**

In addition to the expenditure savings departments have enacted, the following sources of funding have been assumed to ensure that the General Fund is balanced at the end of Fiscal Year 2003. The following recommendations require action by the City Council. These actions are presented on the accompanying Request for Council Action.

1. Remove the existing Capital Outlay and General Fund funding sources within Capital Improvements Project 37-443.0, MSCP Land Acquisition, and replace with funds from the Habitat Acquisition Fund. Return \$907,483 in Capital Outlay and General Fund monies to the General Fund for the purpose of funding General Fund programs. This action requires a majority vote of the City Council.

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2. Transfer \$700,000 from the Open Space Acquisition Fund to Open Space Park Facilities District Fund for debt payments to create a surplus in the Environmental Growth Fund 2/3, the fund which normally transfers the entire debt service payment to the Open Space Park Facilities District Fund. By amendment of the Municipal Code, the surplus funds in EGF 2/3 will be used for enhancing and preserving open space and parks. Due to shortfalls in franchise revenues in Fiscal Year 2003, the Environmental Growth Fund 1/3 is unable to fully reimburse these eligible programs executed by the General Fund. This action will allow the EGF 2/3 to accommodate for those revenue shortfalls, help keep the Environmental Growth Funds in balance and preserve the reimbursements to the General Fund. The action requires a majority vote of the City Council to authorize the transfer of funds and to amend the Municipal Code.
3. Transfer of \$778,913 in interest earnings on several Developer Agreement funds to the General Fund. In all cases, the intended purposes and projects for which the Developer Agreement funds were originally received have been completed and the principal is not affected. As the City is the equitable owner of these funds, it is intended that the City utilize the interest earnings thereon for the purpose of funding General Fund programs. This action requires a majority vote of the City Council.
4. Reimburse the Transient Occupancy Tax (TOT)-Coastal Infrastructure Fund in the amount of \$349,000 for traffic improvement projects in the Belmont Park/Mission Beach Area. TOT-Coastal Infrastructure Funds were used, however this action would reimburse this fund with eligible funding from the Belmont/Mission Beach Traffic Fund. Reimbursements to the TOT-Coastal Infrastructure Fund would then be transferred to the General Fund. This action requires a majority vote of the City Council.
5. Reimburse the General Fund for monies used to establish the Recycling Program Fund. This will transfer \$1.2 million of the Sycamore Canyon Landfill Franchise Fees used in the creation of the Recycling Fund back to the General Fund. This will accelerate the timeline for increases in the Recycling Program charge for services. This action requires a majority vote of the City Council.
6. Transfer \$1.1 million from the Emergency Medical Services – Loss Contingency Reserve to the General Fund. This reserve was established when the Emergency Medical Services Program was created, to protect the City in potential losses that could result from the establishment of the partnership with Rural Metro. Since the program's inception, no losses have occurred, therefore the City Auditor has agreed to release the reserve. This action requires a majority vote of the City Council.

If the City Council approves the actions included in this report, the General Fund will still not be in balance. A deficit of approximately \$7 million would still be outstanding. The City Manager has implemented a General Fund hiring freeze, stopped all non-essential expenditures, and reduced travel and other purchases in order to eliminate the deficit. In developing these action items for City Council approval, we considered several other options as well, including additional cuts to Public Safety services and other General Fund services such as flexible deployment at fire stations, reducing the Police helicopter hours, further reducing park maintenance and reducing library hours. These service level reductions would cause significant disruptions to the public and therefore are not recommended at this time.

### Fiscal Year 2003 Enterprise Fund Status

These funds account for specific services that are funded directly by fees and charges to users. The intent is that these funds be self-supporting and not be subsidized by any general revenue or tax. Enterprise funds account for 32 percent of the City's Total Combined Budget. In Fiscal Year 2003, most funds are projected to be in balance. For more detail on the status of these funds, refer to Appendix B.

### Fiscal Year 2003 Special Revenue Fund Status

These funds account for revenue that is received for specifically identified purposes. Special Revenue funds account for 13.6 percent of the City's Total Combined Budget. For more detail and the financial status of specific Special Revenue Funds, please refer to Appendix C.

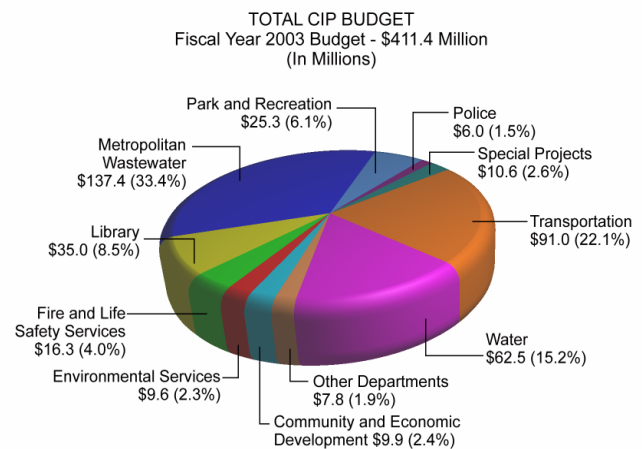
### Fiscal Year 2003 Internal Service Fund Status

Internal Service Funds are created to finance and account for centralized services provided to all other City departments. These funds' expenses are repaid from fees, with rates set to recover the cost of the services provided. Internal Service Funds are generally not included in the City's Total Combined Budget since the related revenues and expenditures reflect the repeated use of City funding sources. These funds together total \$103.5 million in Fiscal Year 2003. For more detail regarding specific Internal Service Funds and the financial status, please refer to Appendix D.

### Capital Improvements Program Funds

The Capital Improvements Program (CIP) is developed in accordance with Council Resolution 181319, dated September 3, 1964, and Council Policy 800-6, dated March 6, 1975. An 11-year CIP schedule is developed each year. The Fiscal Year 2003 CIP Budget totals \$411.4 million.

The majority of the CIP projects are funded by sources other than the State and are not vulnerable to the State budget deficit. Therefore, the City takes a distributive approach to CIP budgeting, whereby monies are appropriated in the fiscal year in which the various stages of a project are scheduled, rather than appropriating all project costs in a single fiscal year. This has allowed the City to better match revenue flows with actual expenditure plans. Any changes to the adopted CIP budget generally require City Council action.



In addition, several Wastewater and Water capital projects are "Phase Funded" to better manage cash flow. Phase funding allows a contract or project to be broken down into clearly defined portions, or phases, which can be funded on a contingent basis. Thus a single large project may be considered a series of component tasks and contracted for by phase. Each phase is then appropriated. These projects comprise the unappropriated

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funding amounts in the Annual Budget, and monies are appropriated as each phase progresses throughout the fiscal year. It is important to note that the City's CIP funding is not without limitations and many significant unfunded capital needs still exist.

There are several major capital improvement projects currently in various stages of review and implementation: Ballpark and Redevelopment of East Village, Library System, Fire facilities, Lifeguard facilities, and water and sewer projects.

### **Fiscal Year 2004 Overview**

The economic outlook on regional, State and national levels is a chief concern as we begin to develop our Fiscal Year 2004 Proposed Budget. Preliminary revenue forecasts suggest that the rate of growth of our primary sources of revenue is expected to be less than the current year. We anticipate that the General Fund revenues will not keep pace with obligations for General Fund expenditures. Therefore, reductions on many levels will be required to ensure a balanced budget. The threat of reductions from the State could further compound the need for deep decreases in the General Fund. We will return in mid-March with the strategies included in developing the Fiscal Year 2004 Proposed Budget.

### **Conclusion**

The two largest issues affecting the City of San Diego's budget in Fiscal Year 2003 are the economy and possible State actions. The local economy has shown signs of rebounding slowly from the recession of 2001. The rate of growth for the major General Fund revenue categories is slower than in previous fiscal years and will not meet our budgeted projections. Possible reductions from the State will compound our challenge, if enacted this fiscal year.

Despite the downturn of the economy, we are committed to revising our expenditures to meet our revised revenue projections in Fiscal Year 2003. This will be accomplished through the departmental reductions that have been implemented to date; additional expenditure reductions that are necessary between now and the end of the fiscal year; administrative transfers; and the proposed actions being considered by the City Council as presented in this report.

Respectfully submitted,



Michael T. Uberuaga  
City Manager

## **APPENDIX A - Other General Fund Revenues**

### **Safety Sales Tax**

A one-half percent sales tax levy for local public safety, otherwise known as Safety Sales Tax, became effective January 1, 1994, as a result of the passage of Proposition 172. The tax is imposed by the State and distributed to cities and counties based on their proportionate loss of property tax incorporated into the 1993-94 State budget. SB 8 changed the allocation system for Proposition 172 revenue and lifted the cap on the share that the City of San Diego and other cities could receive.

The Fiscal Year 2003 Budget of \$6.2 million assumes three percent growth over last year's estimated base receipts. Of this \$6.2 million, approximately \$2 million is allocated for the debt service payments on Fire and Lifeguard facility improvements, with the remainder allocated to the General Fund. The year-end projection is slightly below budgeted levels. Sales Tax and Safety Sales Tax shortfalls are occurring at a similar rate, but due to the magnitude of these revenue sources, only the Sales Tax shortfall will have a significant impact on the Fiscal Year 2003 General Fund year-end financial status.

### **Property Transfer Tax**

A Property Transfer Tax is levied on the sale of real estate. The County collects \$0.55 per \$500 of assessed valuation at the time ownership of real property is transferred. The City of San Diego receives half of all funds collected for transfers that occur within the City limits. Funds are collected by the County Recorder and distributed monthly to the City.

According to SANDAG, San Diego continues to have a shortage of housing, because housing construction, particularly affordable housing and rental units, is not keeping pace with demand. This high demand for housing keeps the San Diego housing market strong. Fiscal Year 2003 Property Transfer Tax revenue is budgeted at \$6.3 million. The year-end projection of \$7.4 million exceeds the budget by approximately \$1.1 million. Home title transfer activity continued to exhibit growth during 2002. Sales of existing homes remained steady in the San Diego area and are projected to grow further. In addition, home values continue to rise.

### **Licenses and Permits**

Licenses and permits generate revenue for the purpose of recovering the costs associated with regulating some activity. This regulatory function is typically performed by government due to the concern for public safety. Included in this category are business license taxes, the rental unit tax, regulatory business licenses, bicycle licenses, street and curb permits, alarm permits, and referral fees received from the City's towing operators.

The business license tax for businesses with 12 or fewer employees is a flat rate of \$34. Business license taxes for businesses with 13 or more employees are based on a flat rate of \$125 plus a fee of \$5 per employee. Rental unit taxes are calculated as a flat rate plus a fee per rental unit. Currently, the rental unit tax has three rate tiers for residential properties and two rate tiers for hotel/motel properties.

Fiscal Year 2003 revenue from licenses and permits are budgeted at \$21.6 million. The year-end projection is slightly below the budget due to reduction in business rental tax collections. This is because many rental units are converting to owner-occupied units.



# Fiscal Year 2003 Financial Review and Status Report

## **Fines, Forfeitures, and Penalties**

This category includes revenue generated from monetary sanctions associated with the violation of a law or regulation. Subcategories of fines, forfeitures, and penalties revenue include California Vehicle Code violations, City parking and ordinance violations, and litigation awards.

Fiscal Year 2003 General Fund fines and forfeitures are budgeted at \$26.9 million. The year-end projection is below budgeted levels by approximately \$2.1 million due primarily to reduced numbers of parking citations and vehicle code violations.

## **Interest Earnings**

The City Treasurer is responsible for investing the City's cash assets exclusive of City Pension Trust Funds. All City funds are pooled and invested together to facilitate increased flexibility in the management of the portfolio for the purpose of maximizing interest earnings. Fund investment must be consistent with the City investment policy and the State's restrictions on types of investments. Investments may extend out to five years, depending on the climate in the investment marketplace and the cash flow requirements of the City.

Fiscal Year 2003 interest earnings are budgeted at \$5.9 million. The year-end projection is expected to be below budgeted levels.

## **Revenue from Other Agencies**

A significant amount of revenue received by the City is initially collected by other agencies and then returned (or subvented) to the City. The subcategories of revenue from other agencies include state grants and allocations, federal grants, and the reimbursement for general City services provided to the Unified Port District.

The Fiscal Year 2003 budget for revenues received by the City from federal, state, and other local agencies is \$8.1 million, with a year-end projection which is near budgeted levels. These revenues include booking fees received in Fiscal Year 2003, which are proposed to be eliminated in Governor Davis' Fiscal Year 2004 proposed budget. Neither the budget nor the year-end projections include any local government relief from the State of California such as that received during Fiscal Years 2000 and 2001.

## APPENDIX B - Enterprise Fund Status

### Metropolitan Wastewater

The City of San Diego's Metropolitan Wastewater Department (MWWD) provides a regional wastewater service that treated approximately 180 million gallons per day in Fiscal Year 2002. MWWD treats wastewater from 16 cities and districts in a 450 square mile area stretching from Del Mar to the north, Alpine and Lakeside to the east, and the Mexico border to the south. MWWD manages all of the resources needed to operate the current Metropolitan Sewerage System, serving a population of 2.0 million, and provides new facilities for improved treatment or additional capacity.

With the City Council approval of a rate increase of 7.5 percent per year for four years, starting in March 2002, MWWD embarked upon an accelerated program of pipeline replacement/rehabilitation and a system-wide preventative-maintenance cleaning schedule for roughly 3,000 miles of municipal sewer lines. Because portions of the system are cleaned with a frequency of greater than once a year, this will result in the cleaning of approximately 4,500 miles of sewer lines during the next two years. This mileage estimate provides for a complete cleaning regimen for the entire system that will run parallel with existing cleaning schedules, including the non-right-of-way portions such as those identified in the Canyon Access Program, as well as problematic right-of-way pipe sections as they are recognized.

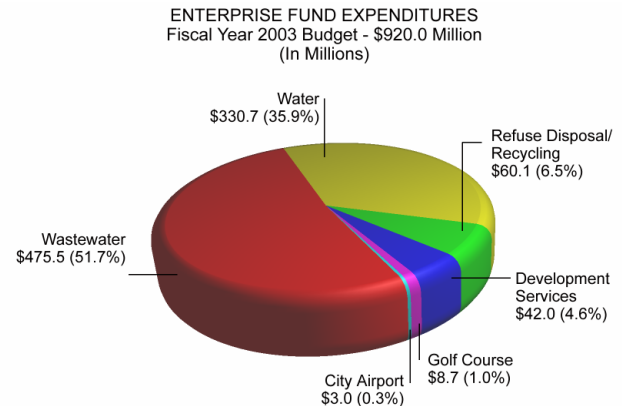
In addition to the focus on municipal sewer main cleaning, a televising assessment program has also been initiated as part of the Capital Improvements Program (CIP) for 1,200 miles of municipal sewer pipeline. By concentrating on these older sections of pipeline, as well as ramping up the rehabilitation and replacement of deteriorated pipelines from 15 to 20 miles per year to 60 miles per year by 2004, the Department will continue to work toward the goal of reducing sewer spills from 10.3 to 6.6 spills per 100 miles of sewer main by the end of Fiscal Year 2007.

In Fiscal Year 2003, MWWD anticipates a department-wide savings of 3.5 percent, excluding reserves. This net operating surplus is mainly attributable to reduced energy costs for MWWD facilities due to new energy producing facilities, the rescheduling of various information technology projects into Fiscal Year 2004, and data processing savings resulting from an increased accountability of inventory-driven expenditures.

### Water

For over 100 years, the Water Department has provided high quality water to the residents and visitors of San Diego in a professional, effective, and efficient manner. As a result, the public health, environment, and quality of life are enhanced.

In April 2002 the City Council approved five annual six percent rate increases commencing on July 1, 2003, to support additional CIP financing and operational requirements. The rate increases enabled the sale of additional water revenue bonds totaling \$286.9



## Fiscal Year 2003 Financial Review and Status Report

million at a historic forty year low for interest rates. Proceeds are being used to fund additional CIP projects as well as refund certain outstanding bonds that were issued in earlier years at higher interest rates. Anticipated CIP expenditures for Fiscal Years 2003 through 2007, including prior year appropriations, are approximately \$511 million. Additional bond issuances are planned within the next five years. It is also anticipated that the continuation of the CIP after Fiscal Year 2007 will require further rate increases and debt financing.

The Water Department's substantial CIP was the result of an extensive strategic planning effort that resulted in a series of capital projects intended to enhance the capability and reliability of the water infrastructure and adhere to a Department of Health Services Compliance Order. The multi-year effort includes water treatment plant upgrades, rehabilitating and installing water pipelines, and construction of pump stations and reservoirs. The Water Department initially issued \$385 million in debt in 1999 to partially support the CIP, and spent approximately \$371 million by the end of Fiscal Year 2002.

As part of the recent Council action to adopt new water rates, the Water Department was directed to implement monthly billing no later than December 31, 2003. Approximately 97 percent of the City's 263,000 customers are billed on a bimonthly basis. It is believed that customers will find it easier to manage a monthly budget by getting a smaller bill every month, rather than a larger bill every two months. A project team is now making preparations to implement an alternative billing option adopted by the City Council in November 2002. The new billing process will be based on the current practice of reading meters on a bi-monthly schedule. Specifically, a bill would be generated in the first month on estimated water consumption and then adjusted for actual consumption in the following monthly bill when the meter is read. This new billing process will not require additional staff.

The Fiscal Year 2003 budget is consistent with the latest rate case and financial plan. Per ongoing analyses of existing conditions and trends, Water Department expenditure levels are expected to be within budget appropriations for Fiscal Year 2003. Department revenues are also closely approximating anticipated levels.

### **Development Services**

The Development Services Enterprise Fund is responsible for managing the majority of the construction and development project review services for the City of San Diego. Zoning and development information services are also a part of the Development Services Enterprise Fund. The major functions of building plan check and inspection, development and environmental planning, and subdivision review are centralized to provide greater coordination and management of development.

Total building valuation has increased from \$2.03 billion in Calendar Year 2001 to a projected \$2.07 billion in Calendar Year 2002, a 2.1 percent increase. The total valuation measure is a useful economic, revenue, and workload indicator. Total valuation is the total value of the building construction work for which Development Services building permits are issued, based on industry-recognized valuation standards. Total annual valuation includes all residential and commercial projects.

## Fiscal Year 2003 Financial Review and Status Report

For Fiscal Year 2003 forecasted revenues are expected to be \$44.6 million and will exceed budgeted revenues by \$0.79 million. Fiscal Year 2003 forecasted expenditures are projected to be \$43.66 million, which is \$1.67 million more than budgeted expenditures. This is because actual permit activity and the resulting workload has exceeded what was budgeted for the year. Development Services Department monitors and controls its expenses throughout the fiscal year, and matches expenditures to the annual revenues and reserves available in the Development Services Enterprise Fund.

### **Refuse Disposal and Recycling**

The Environmental Services Department finances several programs from two enterprise funds: the Refuse Disposal Fund and the Recycling Fund. The purpose of the programs is to efficiently and effectively maintain a clean, safe, and healthy environment by reducing, collecting, and disposing of solid waste; implementing and encouraging public participation in recycling programs; preventing litter; managing hazardous materials; and educating the public about the benefits of a safe and sustainable environment.

Under direction of the Mayor and City Council, the Department has completed a multi-year program to expand the collection of commingled recyclable commodities to all residences receiving City-provided trash collection. Citywide expansion of separated greenery collection will continue as funds are available.

The Environmental Services Department Enterprise Funds are currently operating on a sound fiscal basis, reflecting strong revenue flow and anticipated containment of operating costs below budgeted levels.

### **Golf Course**

The Golf Course Enterprise Fund manages and maintains the Torrey Pines and Balboa Park Golf Courses and is funded solely from golf green fees, concessions, and interest revenue derived from those courses. During Fiscal Year 2003, in July, staff hosted the Junior World Golf Championship, which is the largest and most prestigious junior golf event in the world. In February 2003, Golf Operations hosted the very exciting and highly publicized PGA TOUR Buick Invitational. Many top professionals competed, including Jose Maria Olazabal, who won the 2002 Tournament, Phil Mickelson and Tiger Woods. Tiger Woods is the 2003 Tournament Champion. As in past years, staff at Torrey Pines Golf Course received high accolades for course playing conditions and staff support. Staff will also conduct the Men's and Women's City Amateur Golf Championship in June 2003.

For Fiscal Year 2003, due to the success of the Fiscal Year 2002 City Council approved operational changes for Torrey Pines and Balboa Park Golf Courses, revenue is expected to exceed Fiscal Year 2003 projections and will cover projected expenditures. The operational changes include higher resident and non-resident rates, new San Diego County 18 hole rates at Torrey Pines Golf Course, and non-resident credit card guarantee. These operational changes helped compensate for a revenue decline which began after the events of September 11, 2001.

## Fiscal Year 2003 Financial Review and Status Report

### **City Airport**

The City Airport Enterprise Fund continues to be the major source of funding for developing and maintaining Montgomery Field and Brown Field Airports. Fiscal Year 2003 has been a year of significant progress in reaching the financial and airport development goals of the City.

Additional funding has been made available for the Airport Improvement Program (AIP) which will provide electrical upgrades to the runway and taxiway lighting/electrical systems at Montgomery Field.

There has also been an increase in available funding for the installation of a perimeter fence at Montgomery Field. This will result in a significant reduction of runway incursions and further enhancement of the Post-9/11 Airports Security Program.

Plans are also underway to begin demolishing a number of buildings at Brown Field Airport that are not cost effective to renovate. A business plan is being implemented that will include future property development and slurry sealing/painting of all runways and taxiways.

Expenditure projections indicate that both airports are operating within budget, and the revenues are trending as expected with no major variations.

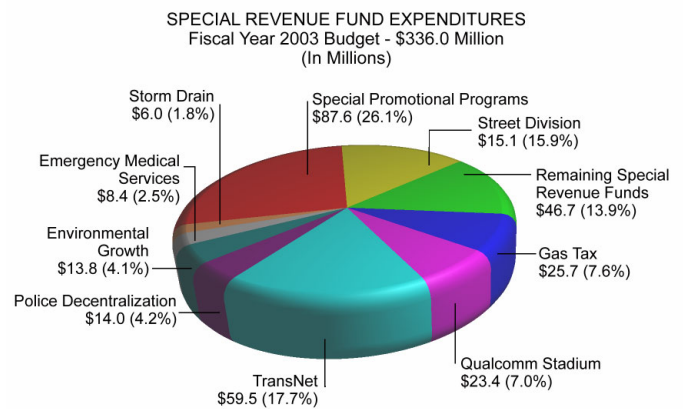


## APPENDIX C - Special Revenue Fund Status

### Balboa Park/Mission Bay Park Deferred Maintenance Fund

The Balboa Park/Mission Bay Park Deferred Maintenance Fund of \$4.0 million was established in Fiscal Year 2000 using one-time monies to perform deferred maintenance on projects identified by the Mayor and City Council for Balboa Park and Mission Bay Park. These projects include facilities as well as roads and parking lots.

The Public Buildings and Parks Division manages the Balboa Park/Mission Bay Park Deferred Maintenance Fund. All approved projects are within budget. Eighty-six percent of total fund appropriations are for projects completed as of December 2002. The remaining 14 percent are anticipated to be completed by June 2003. Funds remaining in the account amount to approximately \$245,000.



### Centre City Maintenance Fund

The Centre City Maintenance Fund is used to identify maintenance problems, develop solutions, and coordinate services and projects for the benefit of downtown. The fund provides services that include weekend refuse collection, hand street-sweeping, 24-hour-a-day downtown restroom availability, and coordination of special events. In addition, staff serves as a liaison between City departments and businesses regarding resolution of maintenance issues. Revenues and expenditures are projected to be in balance at year-end.

### Convention Center Complex and New Convention Facility

The Convention Center Complex Fund reflects the transfer of funds from Special Promotional Programs for the purpose of planning, promoting, operating, and maintaining the San Diego Convention Center, and also providing for the expansion of the Convention Center. This Fund is projected to be in balance at year-end.

The New Convention Facility Fund provides funding for the operation and maintenance of the Convention Center. In addition, it provides City services related to operational and developmental activities between the City, the Convention Center Corporation, and the San Diego Unified Port District. It is projected that this Fund will be in balance at year-end.

### Emergency Medical Services

Emergency Medical Services (EMS) provides 24-hour medical transportation services to the City of San Diego through San Diego Medical Services Enterprise, whose members are the City of San Diego and Rural/Metro of San Diego. Ambulances are staffed by personnel from San Diego Fire-Rescue Department and Rural/Metro of San Diego.

It is expected that EMS expenditures will be recovered in total by the distribution of revenues and reimbursement from San Diego Medical Services Enterprise, Rural/Metro of San Diego, Fire-Rescue Department and the City's General Fund budgets.

## Fiscal Year 2003 Financial Review and Status Report

### **Energy Conservation and Management Program**

The Energy Conservation and Management Program processes 36,000 energy bills annually. The City's Fiscal Year 2001 Summer Energy Action Plan resulted in a 15 percent reduction in energy consumption for the three summer months and a 13 percent or 20 million kilowatt hour reduction for Fiscal Year 2001. In Fiscal Year 2002, despite the addition of new City facilities and the increased usage of high pressure sodium street lights, the City saved approximately 15,939,997 kilowatt hours or nine percent, compared to energy use in Fiscal Year 2000. The Program continues to focus on making San Diego a model city in terms of energy conservation and implementation of long-term energy efficiency projects, including the use of renewable energy resources such as photovoltaics and landfill gas to generate power for use at City facilities.

The Energy Conservation and Management Program's revenues and expenditures are projected to be in balance at year-end.

### **Environmental Growth**

The Environmental Growth Fund is used exclusively for the purpose of preserving and enhancing the environment of the City of San Diego. This fund is financed from franchise revenues. One-third of the money funds maintenance costs for regional parks including Balboa Park, Mission Trails Regional Park, Tecolote Canyon Natural Park, Black Mountain Park, San Pasqual Open Space and Los Peñasquitos Park. Two-thirds of the monies received are used exclusively to pay the debt service for bonds issued for the acquisition, improvement and maintenance of open space to be used for park or recreational purposes. Revenues are anticipated to be lower than budgeted due to the estimated reduction in San Diego Gas & Electric Franchise Fees, due to lower natural gas costs. By authorizing the replacement of the debt service payment with Open Space Acquisition Funds and amending the Municipal Code, as provided for in the accompanying Council action, the Environmental Growth Fund 2/3 portion will have surplus funds that can be used to meet Environmental Growth Fund obligations and help keep the fund in balance.

### **Facilities Financing**

Facilities Financing, a section of the Planning Department, is the implementation arm of Community Planning. Public Facilities Financing Plans identify community plan facilities and provide cost estimates. In conjunction with Community Planning, existing and build-out development projections are determined. From this determination, fees for each community are calculated based on the type and size of future development/redevelopment.

Facilities Benefit Assessments (FBA) or Development Impact Fees (DIF) are determined and charged for development in all planned urbanizing and urbanized communities within the City of San Diego. A developer usually pays one or the other (FBA or DIF), but not both. As development occurs, plan files are reviewed and fees assessed. Fees are collected from development when building permits are issued. The money is used by the City to provide needed public facilities such as streets, libraries, parks and fire stations. Key accomplishments are the number of community facilities provided all or in part with these fees. Facilities Financing also assesses Housing Trust Fund Fees (HTF). These fees were adopted by Ordinance O-17454 on April 16, 1990. This fee is applicable on new construction, additions or interior remodeling to accommodate a change from the structure's current use. These fees are only applicable to non-residential development and were established to meet, in part, the affordable housing needs of San Diegans.

Development Agreements, Tentative Maps, and Cost Reimbursement Districts are monitored to ensure that conditions are met on a timely basis and that funds collected are used for the purpose intended. Facilities Financing is responsible for portions of the Strategic Framework Element regarding financing strategy and Citywide inventory.

This year, expenditures are programmed to occur within budget.

### **Gas Tax**

The Gas Tax Fund is a result of a combination of laws that tax the use of gasoline. The current total tax on fuel is \$0.18 per gallon. The City of San Diego's share of Gas Tax revenue is based on a formula using vehicle registration, assessed valuation, and population. The funding generated is used to perform Citywide repairs and restoration to existing roadways, reduce congestion, improve safety, and provide for the construction of needed facilities within the rights-of-way.

In addition, this fund provides landscape maintenance for selected center medians and rights-of-way, traffic engineering and street maintenance services.

In Fiscal Year 2003, the Mayor and City Council approved \$25.7 million in operating programs to be funded with Gas Tax funds. Based on the most recent estimates, the Gas Tax Fund will be in balance at year-end.

### **Information Technology and Communications**

The Information Technology (IT) Division establishes strategies, policies and procedures for effective implementation of Citywide information technologies. In doing so, the IT Division manages the day-to-day operating agreement and negotiates user rates with San Diego Data Processing Corporation on behalf of the City Manager. The Division is also responsible for the Cable TV Program, the City's E-Government Program, including the City's Web Site, the Geographic Information System (GIS) Program, IT Project Management, including operational IT standards and practices, Citywide IT budgeting, management of Citywide IT contracts, and special projects such as the Employee Computer Purchase Program.

The IT Division is funded through the IT Revolving Fund. Because the IT Division represents and provides services to all City departments, the Revolving Fund is paid for by all City departments. Approximately 32 percent of the cost for this fund is apportioned to the General Fund and 68 percent of the cost is covered by the Non-General Funds.

The Information Technology Division is forecasting full expenditure of the Fiscal Year 2003 Budget.

### **Los Peñasquitos Canyon Preserve**

The Los Peñasquitos Canyon Preserve Park Fund provides for the protection and enhancement of the natural features of Peñasquitos Canyon Preserve while providing for passive recreation in accordance with the Peñasquitos Master Plan. Sources of revenue for this fund include interest income from the endowment fund established as a result of the American-General land trade agreement, concession leases, and a transfer from the Environmental Growth Fund. Although the revenue received is expected to be slightly less than the budgeted amount, this reduction will be offset by reduced expenditures. Revenues and expenditures are projected to be in balance at year-end.

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### **Optimization Program**

The Optimization Program assists City business units to ensure that public services are provided to the citizens of San Diego in a productive and optimal manner. This is done through the process of re-engineering projects and departmental assessments. Since the program's inception, 19 re-engineering projects have been successfully completed resulting in \$113 million in savings through cost avoidance and/or increased revenue. The program includes the administration of the Citywide Resident Satisfaction Survey, as well as the ongoing performance monitoring of City services that have undergone the competitive assessment process. It is projected that the Optimization Program will be in balance at year-end.

### **Police Decentralization**

This program funds the site acquisition, planning, and construction of new, permanent police facilities; annual debt payment for permanent facilities; and payment for jail services per a negotiated contract with the County of San Diego. The Police Decentralization Fund is projected to be in balance at year-end.

### **Public Art**

The Public Art Fund supports programs and services that advance the development of public art projects in San Diego and advocate the inclusion of artists in public and private development. It supports the management and maintenance of the City's art collection as well as the planning and administrative costs associated with the development of a Public Art Master Plan in Fiscal Year 2003. The Public Art Fund is projected to be in balance at year-end.

### **QUALCOMM Stadium**

QUALCOMM Stadium has a long and proud history of providing a venue for world-class sporting and entertainment events. In addition to being the home of the Aztecs, Chargers, Holiday Bowl, and Padres, the Stadium has hosted three Super Bowls, with the third occurring this year. Other major events over the years have been concerts, international soccer matches and conventions.

Controllable Stadium operating expenses are running slightly below budget. This is primarily due to the aggressive energy conservation program that resulted in a 22 percent reduction in electrical consumption last year and an additional 4.8 percent reduction to date this year. Special one-time expenses are causing the Stadium to be about 4 percent over budget. These special expenses include costs for the Chargers Task Force and special sports consulting (\$280,000), the new video surveillance system (\$200,000), and improvements required by the NFL for the Super Bowl (\$465,000). The Stadium is hopeful that increases in revenues, which are projected very conservatively at this time, will offset a portion of these extra expenses.

### **Seized and Forfeited Assets**

This program provides for the expenditure of proceeds from seized and forfeited assets. Under the Federal Comprehensive Crime Control Act of 1984, local law enforcement agencies may receive from the federal government seized and forfeited assets from operations in which the local agencies participated. The large number of narcotics investigations conducted by the Police Department, in conjunction with federal authorities, makes the Department eligible for participation in the program. Federal law requires that assets received go toward enhanced enforcement activity and not be used to supplant normal City revenues. Assets have been used to support the Air Support Program, the

STAR/PAL Program, and the Juvenile Services Program. The Seized and Forfeited Assets Fund is projected to be in balance at year-end.

#### **Solid Waste Local Enforcement Agency**

Development Services' Solid Waste Local Enforcement Agency (LEA) is certified by the California Integrated Waste Management Board (CIWMB) to enforce State solid waste laws and regulations. To fulfill this mandate, the LEA carries out a comprehensive permitting and inspection program for all active solid waste facilities and operations within the City's jurisdiction. The LEA is also responsible for enforcing State requirements at closed, inactive, or abandoned disposal sites to ensure the protection of public health and safety and the environment. The fund is projected to be in balance at year-end.

#### **Special Districts Administration**

The purpose of Special Districts Administration is to provide a cost-effective method for the City to facilitate provision of necessary public improvements in developing areas of the City. Special Districts Administration handles all aspects of the land secured debt issuance process, including district formation, bond issuance and administration of special assessment districts and community facilities districts.

The overall budget for the Special Districts Administration is in good standing. It is anticipated that all expenses for Special Districts Administration will be reimbursed by revenue received by the end of Fiscal Year 2003.

#### **Special Promotional Programs**

The purpose of this fund is to advance the City's economic health by supporting programs that increase hotel occupancy and attract industry, resulting in the generation of Transient Occupancy Tax (TOT) and other revenue; to develop, enhance, and maintain visitor-related facilities; and to support the City's cultural amenities and natural attractions. Due to slower growth in TOT revenue, revenue to Special Promotional Programs is expected to fall below budgeted levels by approximately \$0.5 million. This shortfall will be mitigated by a decreased transfer to the General Fund for Safety and Maintenance of Visitor-Related Facilities and will not impact the existing contracts with TOT organizations.

#### **Storm Drain**

Storm Drain fees were implemented by the City of San Diego in 1990 and are collected as part of all water and sewer utility bills. The revenue collected is expended for operation and maintenance of storm drains, construction of capital projects and the general management of the storm drain system, including monitoring the system for silt, toxic material and related pollutants. The current fee is \$0.95 cents per single-family residence meter per month and \$0.06 cents per hundred cubic feet, per month, for all other meters.

The Storm Drain Fund, which is comprised of Storm Drain fees, is budgeted at \$6.0 million in Fiscal Year 2003. These funds are allocated in the current year budget for a wide range of activities related to construction and maintenance of storm drains as well as storm water management programs. The Storm Drain Fund will be in balance at year-end.

#### **Transportation/Street Division**

As a result of recent State budget reductions, the City of San Diego may not receive anticipated revenue of approximately \$3,300,000 in the current fiscal year from AB2928, the Traffic Congestion Relief Act. If this occurs, Street Division will bear the full impact



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of this reduction. In order to accommodate this proposed decrease in revenue, the annual resurfacing, slurry seal, and sidewalk repair contracts will be reduced or cancelled, and maintenance contracts such as tree trimming will also be affected. This funding has also been eliminated in future years, but if a replacement revenue source is found beginning in Fiscal Year 2004, the contracts will be returned to their previous service level.

### **TransNet**

On November 7, 1987, voters in the County of San Diego approved the San Diego Transportation Improvement Program (TransNet), which allowed for a half-cent increase in the local sales tax (Proposition A). The term of this program is for 20 years, ending in 2008. The City of San Diego's share of TransNet revenue is based on population and the number of local street and road miles maintained. The funds generated are used to perform Citywide transportation improvements such as the repair and restoration of existing roadways and construction of needed facilities within the public rights-of-way. Through a cooperative effort with the San Diego Association of Governments (SANDAG), the City of San Diego is able to manage the fund so that the most pressing transportation problems are solved.

More specifically, TransNet revenue is allocated for traffic engineering and street maintenance services, graffiti control activities, transportation and drainage, telework services, traffic studies plans, and other TransNet eligible capital improvement projects.

In Fiscal Year 2003, the Mayor and City Council approved \$26.9 million in operating programs and capital improvement projects to be funded with TransNet funds. In Fiscal Year 2003, the Mayor and City Council also approved a TransNet Commercial Paper budget of \$32.6 million. Commercial Paper is a borrowing tool typically used to raise cash needed to cover current cash flow deficits and is generally viewed as a lower cost alternative to bank loans. SANDAG issues Commercial Paper on behalf of the City as advanced funding of TransNet monies projected to be received in the future. For Fiscal Year 2003, it is projected that \$9.1 million of TransNet Commercial Paper will be issued.

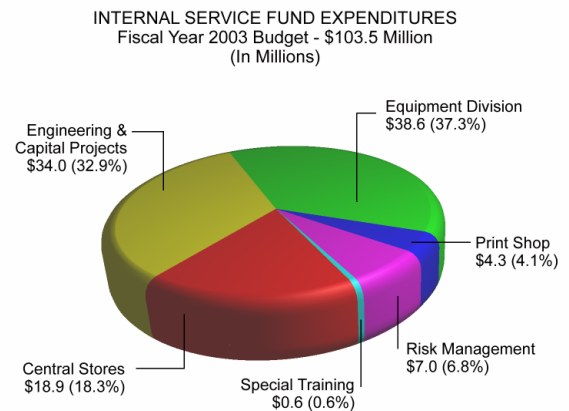
### **Unlicensed Driver Vehicle Impound**

This program provides for specialized enforcement of State of California laws regarding the operation of a motor vehicle without a driver's license or with a suspended or revoked driver's license. The program was initiated with grant funding from the State of California Office of Traffic Safety and continues as a self-supported program funded by the fees imposed on the impound of vehicles of unlicensed drivers. It is anticipated that the fund will be in balance at year-end.

## APPENDIX D - Internal Service Fund Status

### Central Stores

The Central Stores Revolving Fund is responsible for the procurement, storage and distribution of approximately \$27.5 million in consumable materials and supplies to City departments, the administration of the Citywide Open Purchase Order Program, the redistribution and sale of surplus City property, the interoffice and United States Postal Service Mail Center operation and the City Public Works Emergency Communication and Dispatch Center (Station 38). The Surplus Property Program has realized \$478,616 in revenue to date with two additional public sales scheduled in Fiscal Year 2003. The customer satisfaction rate for the Storeroom Operations activity is currently 96.6%. Revenues and expenditures are projected to be in balance at fiscal year end.



### Engineering and Capital Projects – Water/Wastewater Facilities and Field Engineering

The Water and Wastewater Facilities Division is funded through the Water and Metropolitan Wastewater Departments. The purpose of the Division is to provide preliminary engineering and the design of water and wastewater projects. As of July 2002, the Division programmed 150 water projects totaling \$135.6 million and 303 wastewater projects totaling \$732.4 million. The goal is to complete 100 percent of these projects on schedule.

An example of one major project currently in progress is Sewer Pump Station 30A. Construction of this project is anticipated to be completed by Vadnais Corporation by November 2003. Revegetation maintenance and monitoring will be completed in 2006 for a total construction cost of \$7.9 million. This pump station is located near La Jolla Village Drive and Interstate 5 in the University City community. The project includes the abandonment of the pump station and replacement with gravity mains. It is needed due to deterioration of the pump station, lack of backup, and inadequate access for maintenance.

Much of the project is being built utilizing tunneling methods. The mains range from 6-18 inches in diameter. Some sections are very deep and the alignment also crosses I-5 and UCSD, as well as other properties. Property acquisition for this project is a challenge and condemnation is still in progress.

The Division will also be developing a number of small construction utility replacement projects at a construction cost of \$500,000 or less each to encourage participation from contractors that typically do not work with the City of San Diego.

Another major project is the Mid-City Water Transmission Pipeline Project. The Mid-City Pipeline Project (MCPL) was awarded to PCL Contractors. The Notice to Proceed was issued on January 18, 2000 and the project was completed in August 2002. The entire pipeline is 24,000 feet long, which is about 4.85 miles. PCL Contractors has completed the replacement of a 16-inch main between 54<sup>th</sup> Street and Art Street. The MCPL is now 100 percent complete.

## Fiscal Year 2003 Financial Review and Status Report

The project was initiated due to the deterioration of the Trojan Pipeline. The Trojan Pipeline has been unable to accommodate the growth and development in the Mid-City area for the past two decades. As a result, many Mid-City community residents have experienced lower than acceptable water pressure. The Mid-City Pipeline will provide backup to the Trojan Pipeline, allowing the City of San Diego to take portions of the Trojan Pipeline out of service for inspection and repair. The Mid-City Pipeline will increase water pressure in the Normal Heights area and improve the reliability of the water delivery system throughout the entire Mid-City area.

The expenditures for the Division are in alignment with this year's budget and project schedules.

### **Equipment Division**

The Equipment Division of the General Services Department is responsible for the acquisition, maintenance/repair, and disposal of the City's non-public safety fleet.

The Equipment Replacement Fund acquisition plan for the year calls for \$5.1 million (73 vehicles) in General Fund lease purchases, \$3.8 million in Street Division cash purchases (42 vehicles), and \$4 million in cash purchases (71 vehicles) for other Non-General Fund departments.

Equipment Division is also purchasing the following fleet additions: General Fund, 13 pieces of equipment for \$348,433; Street Division, 10 pieces of equipment for \$453,565; and other Non-General Fund departments, 23 pieces of equipment for \$1,456,553.

The Operating and Replacement Funds are projected to be in balance at the end of Fiscal Year 2003.

### **Print Shop**

The Print Shop Revolving Fund is responsible for managing, supervising and producing the City's publications, graphics, multimedia and convenience photocopier requirements in an efficient and organized manner to achieve the highest quality at the lowest possible cost. Over 5,000 printing, graphics, multimedia and photocopy requests have been completed thus far in the fiscal year with a 94 percent satisfaction rate. The Print Shop is developing a new General Services/Print Shop/Central Stores/Station 38 Intranet Home Page which will be designed for customers to submit orders on-line, answer frequently asked questions and provide general information. The Print Shop is submitting accounting for Print Requisitions and Copier Service Requests via a computerized chargeback system through the Auditor's Department.

It is projected that the Print Shop Revolving Fund will be in balance at year-end.

### **Risk Management**

Risk Management oversees the appropriations designated for the effective prevention, reduction or elimination of the City's risk by centralizing the administration of safety, employee benefits, Workers' Compensation and public liability exposure programs. Having these types of programs in place serves as an incentive for employee recruitment, retention and satisfaction, while protecting the City's assets, employees, and citizens.

The Workers' Compensation expenditures are projected to be \$4 million higher than last year and \$6-8 million higher than budgeted. Workers' Compensation costs rose significantly from \$13.7 million in Fiscal Year 1998 to \$19.6 million in Fiscal Year 2001, an

increase of \$5.9 million in just three years. The total cost for Fiscal Year 2002 was \$22.8 million, and is currently tracking towards \$26.8 million in Fiscal Year 2003.

A \$3.74 million increase in medical costs over a three-year period (1998-2001), given that the incident rate and the number of claims filed annually have remained relatively flat, highlights that medical costs have increased at an alarming pace. In this case, medical costs have risen in excess of 54.72 percent since 1998. As medical costs make up the single largest cost-driving factor of Workers' Compensation costs, this trend provides a strong stimulus for the implementation of safety measures currently being undertaken by the City.

The reasons for the rapid Workers' Compensation cost inflation experienced by employers are very complex. According to the California Workers' Compensation Institute (CWCI), the 1993 Workers' Compensation legislative reform has led to unintended consequences. Their study of the legislation concludes that it has resulted in an escalation of litigation, claim duration and medical costs. CWCI examined medical payments made in three periods: (1) 1993 through 1994, the baseline period when the reforms were drafted and implemented; (2) 1995 through 1996, an adjustment period when courts issued legal interpretations and established precedents; and (3) 1997 through 1999, a post-reform era when the impact of the system changes became clearer. What this study found was that Statewide, over five-and-a-half years, average monthly Workers' Compensation medical payments per claim rose 75 percent, from \$110 in January 1994 to \$193 in June 1999. More recent Workers' Compensation legislation (AB 749) signed by the Governor in February 2002, which increased benefits in a number of categories, will undoubtedly lead to further cost increases.

It is projected that Risk Management will be in balance at year-end once the Workers' Compensation costs are accommodated in the General and Non-General Funds.

### **Special Training**

The Special Training Program consists of three main components: Citywide Training, Career Development, and City Manager's Equal Employment Opportunity Program. Citywide Training offers training classes and courses to employees across all levels of the organization and results in increased knowledge of best practices in management and supervision. Training programs include Academy 2000, Dimensions in Discipline, and Inspiring Performance Through Rewards and Recognition.

The Career Development Program enables City employees to successfully manage and develop their careers through customized programs such as: the Career Management Program, the Modified Career Management Program, the Administrative Support Mentoring Program, the Field Career Development and Mentoring Program, the Fire Academy Mentor Program, and the Municipal Government Fellowship Program. Skill based trainings are also offered that focus on interviewing, presenting, communicating, and networking.

The City Manager's Equal Employment Opportunity Program provides coordination between representatives from the City Attorney's Office, Equal Employment Investigations Office (EEIO) and several operating departments, as well as City department managers, to create Citywide EEO complaint, reporting, tracking and resolution procedures, including the development of EEO process and protocol across departments.

It is projected that the Special Training Program will be in balance at year-end.